Would Risk Recession, Fellner Says

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The newest member of the Council of Economic Advisers believes the nation should consider accepting "a small risk" of real recession in 1974 in order to provide some assurance of a significant reduction of inflation.

In a lecture Thursday night at the National Economists Club here, Fellner said that government policy is to achive a "soft landing" after a period of excessive growth in the economy. That is taken to mean a temporary reduction of the real growth rate, but not an actual decline in output.

But he warned that government policymakers would be "foolhardy" if they promised to achieve a soft landing and "at the same time reduce inflation to a rate from which it will not start accelerating anew rather promptly."

At best, he said, "they can merely be led by this objective and try to accomplish it." Then, Fellner posed these questions:

"Should we follow a line which for 1974 almost wholly excludes the possibility of a recession in the conventional sense, but which involves the substantial risk of an insufficient and merely temporary reduction of the inflation rate?

"Or should we accept a small risk (though not a practically zero risk) of a recession in 1974, but play somewhat safer on a significant reduction of inflation?"

Fellner concluded that "it would be very bad" to wind up next year and in 1975 with results that reflected the refusal of policymakers "to run the risk of a short-term" setback for the economy.

A "soft landing" for the economy that does no better than maintain "the present money-wage trend" of 7.5 per cent plus fringes, he argued, would correspond to a 5 per cent inflation rate in the private, non-farm sector.

"What I have been suggesting," Fellner said, "is that an attempt to reduce the risks of some degree of bumpiness to practically zero—an attempt to play safe in one direction only—would involve a very substantial risk of accelerating inflation.

". . . a policy of using excessive safety margins against the potential consequences of restraint would get us into very serious difficulties.

"In a democracy, policy makers cannot afford to be insensitive to pressures exerted by public opinion, and one can only hope that these pressures will not be exerted effectively toward highly inflationary policies and toward attempts to cover up the symptoms by administrative regulations."

In answers to questions, from the audience, Fellner said that with a proper degree of fiscal and monetary restraint, it is possible to forsee a deceleration in money wage rates, and a reduction of the rate of inflation to somewhere in the vicinity of 3 per cent.